Inside: Contact information for The Heartland Institute's Board of Legislative Advisors

Excerpt: A Critique of Metropolis 2020 page 16

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PBot™ inside

Intellectual Ammunition

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Potshots

Economic statistics are like a bikini. What they reveal is important, but what they conceal is vital.

Will's Two Laws of Economic Understanding: All news is economic news, and all economic news is bad.

GEORGE F. WILL

The feeble tremble before opinion, the foolish defy it, the wise judge it, the skillful direct it.

JEANNE DE LA PLATIERE

Freedom is a fragile thing and is never more than one generation away from extinction.

RONALD REAGAN

The whole aim of practical politics is to keep the populace alarmed—and hence clamorous to be led to safety—by menacing it with an endless series of hobgoblins, all of them imaginary.

H.L. MENCKEN

For every credibility gap, there is a gullibility fill.

Death and taxes may be inevitable, but death doesn't get worse every time Congress meets.

JOAN I. WELSH

Tuition Tax Credits: A Cautionary Tale

by George A. Clowes

Some policy analysts have claimed tuition tax credits for K-12 education are less likely to bring increased regulation to private schools than other reforms, such as school vouchers. A recent study of the effects and consequences of the 1997 HOPE Scholarship Program for higher education effectively refutes such claims.

In addition to putting individual taxpayers under increased scrutiny from the Internal Revenue Service, the HOPE program has greatly increased the administrative burden imposed by the federal government on institutions of higher learning. That burden is likely to increase as the revenue focus of the IRS supersedes the traditional educational focus of federal student aid programs.

The federal HOPE "Scholarship" provides families with a federal income tax credit of up to $1,500 a year for two years if they pay a minimum of $2,000 a year for higher education tuition and fees. Costing about $6 billion a year, the fledgling program already rivals the cost of the quarter-century-old Pell Grant Program for low-income students, which costs about $9 billion a year.

A $137 MILLION BURDEN

"The burden imposed by the HOPE ... tax credit ... far exceeds any federally imposed burden that we have encountered previously," complained Stanley O. Ikenberry, president of the American Council on Education, in a 1998 letter to then-Treasury Secretary Robert E. Rubin. The IRS requires the institutions to report the names, addresses, and Social Security numbers of all their students, as well as whether the students are enrolled at least half time. In addition, the institutions must supply all students with a copy of their individual statement (Form 1098-T).

According to the IRS, the annual reporting burden of producing Form 1098-T and sending it to the IRS and 21 million taxpayers is 2.4 million hours. But in addition to the paperwork, the institutions found they also were burdened by a deluge of inquiries from students and their families when they first received the new Form 1098-T in the mail.

The IRS wants to increase the paperwork burden still further by requiring the institutions to report the names, addresses, and Social Security numbers of all persons who could claim the student as a dependent. The National Association of College and University Business Officers estimated complying with all the pro-

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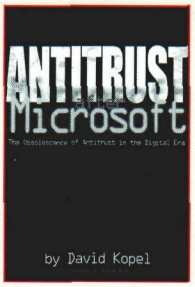

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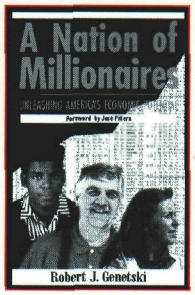

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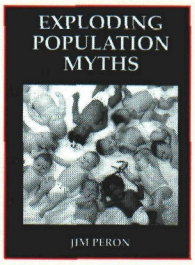

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News from the Heartland

by Diane Carol Bast
Editor

Welcome to the new year, and to the first issue of *Intellectual Ammunition*'s **eleventh** year of publication! We skipped the January/February issue for financial reasons ... most of you understand all too well the notion of budget constraints ... and we hope you didn't miss us too badly.

YOU LIKE US!

Since the February/March 1998 issue of *Intellectual Ammunition*, the back page has been reserved for a reader survey because we genuinely want to know how *IA* is perceived and used by its audience.

That survey has provided valuable feedback. For example, in 2001 we learned:

- Nearly half of *IA* readers (45 percent) spend more than 30 minutes reading the magazine, and 42 percent spend between 15 and 30 minutes.
- Nearly three-quarters of you—a gratifying 74 percent—keep back issues of the magazine on file for future reference.
- More than nine out of 10 readers—an impressive 92 percent—find the information in *Intellectual Ammunition* "always" or "usually" reliable.
- 77 percent of you report The Heartland Institute has an "excellent" or "very good" reputation among your peers, and 85 percent of you rate The Heartland Institute's performance as "excellent" or "very good."

Many thanks to those of you who have completed surveys in past issues of *Intellectual Ammunition*. And if you haven't done so before, please take a moment now to complete and return the survey that appears on the back cover of this issue. Your input is an essential part of the Total Quality Management program that keeps this magazine, and The Heartland Institute itself, improving over time.

As Benjamin Disraeli once said, "As a general rule, the most successful man in life is the man who has the best information." That goes for organizations, too ... so let us know what you think!

HOW CAN WE HELP?

Thousands of *Intellectual Ammunition* readers face re-election campaigns this year. We'd like to help ... just tell us how.

- Are there specific questions you expect to face in your campaign that our current columnists could address? Contact them directly at the email addresses below, or send your questions to me and I'll forward them as appropriate.
- Are there specific issues *IA* is not currently addressing that it should? Having lost Crime columnist Morgan Reynolds to federal government work, that issue would seem to be a weak spot for us. Are there others?
- Would "nuts-and-bolts" articles—how to develop a persuasive message, how to use the Internet, etc.—be a valuable addition to the bimonthly lineup?

Please let us know the challenges you're facing as we enter the 2002 legislative sessions and campaign season. We're easy to reach!

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posed IRS regulations would have cost institutions of higher education $137 million in 1999.

"In the longer term, it is likely that the regulatory burden will become significantly worse and the financial costs to institutions of higher education will increase, along with the threat to their flexibility, autonomy, and independence," warns Thomas R. Wolanin, a senior associate for the Institute for Higher Education Policy in his April 2001 report, "Rhetoric and Reality: Effects and Consequences of the HOPE Scholarship." Wolanin was a deputy assistant secretary for legislation and congressional affairs for the U.S. Department of Education during the Clinton administration.

In addition to putting individual taxpayers under increased scrutiny from the Internal Revenue Service, the HOPE program has greatly increased the administrative burden ... on institutions of higher learning.

DEFINING TERMS, REGULATING SCHOOLS

Although opposition from the higher education community and pressure from Congress have prevented the IRS from imposing the full reporting requirements contained in the law, this situation is unlikely to endure indefinitely. Also, while the IRS has thus far deferred to the U.S. Department of Education for regulatory definitions of "undergraduate," "academic year," and "tuition," Wolanin predicts the tax collection agency will likely issue parallel definitions of its own in the future.

"Definitions and regulations devised by the IRS are ... likely to be a particularly ill-fitting garment for institutions of higher education since they will be devised by tax experts interested in collecting revenue rather than experts in student aid concerned with serving students and institutions of higher education," notes Wolanin. "Such duplicate, parallel, and ill-suited definitions would dramatically increase the complexity and costs of compliance for institutions."

Complexity and compliance burdens are not trivial for the individual taxpayer, either. Filing for the education credit is not the "simple one-line entry" promoted by tax credit advocates, but an 18-line supplemental tax form with two pages of instructions and an 18-page publication.

NO HELP FOR THE POOR

The HOPE tax credit was promoted by President Clinton as "opening the doors of college" to those who would otherwise be unable to attend. His Education Secretary, Richard W. Riley, predicted "an enrollment boost" from the program.

However, Wolanin's analysis shows the program's design excludes low-income students from participating and provides a "windfall" to middle-income students who would have enrolled in college without the tax credit.

The major barrier to low-income students taking advantage of the HOPE tax credit is that families who pay no federal income tax cannot benefit from the credit. Also, it is not refundable. Thus, a family with an income of less than $19,000 is not eligible for the credit.

Families with incomes between $19,000 and $28,000 are eligible for a partial credit, and families with incomes above $28,000 and less than $80,000 are eligible for the full $1,500 credit.

Even if they do meet the income criteria, some low-income families still fail to qualify for a tax credit because HOPE regulations require eligible educational costs to be reduced by other grants and real scholarships first.

"Put most simply, low-income students do not qualify for the HOPE Scholarship," explains Wolanin." Therefore, it makes no contribution toward paying their higher education expenses." The basic design of the program excludes low-income students. The benefits go only to middle-income students.

NOT ENOUGH TO MATTER?

For middle-income families making between $28,000 and $80,000, the $1,500 tax credit reduces the cost of college as a percentage of income by an average of 2 percent. Since that is not enough to significantly change the likelihood of attending college, "the HOPE Scholarship is simply a windfall to middle-income families," states Wolanin. Those families who face the biggest burden from large and rapidly increasing college costs—families with low incomes—receive no help at all from the HOPE Scholarships.

"Contrary to the intentions of the Clinton administration, there is no evidence to date that the HOPE Scholarship increases enrollments in higher education for any income category of students or potential students," states Wolanin.

WRONG ROAD

As a tax preference, the HOPE tax credit also makes the federal tax system more complex and less fair, as well as distorting free-market decisions. Since tax credits reduce government revenues for a given set of tax rates, the widespread use of a specific tax credit provides a perverse incentive to keep tax rates high in order to produce sufficient revenue for other government purposes or even to *increase* tax rates.

"The HOPE Scholarship squanders a substantial sum of federal tax resources by its failure to produce significant benefits for individuals, institutions of higher education, the states, the federal higher education policy process, or the federal and state tax systems," Wolanin concludes. In fact, he adds, the program has *negative* consequences in each of these areas.

Filing for the education credit is not the "simple one-line entry" promoted by tax credit advocates, but an 18-line supplemental tax form ...

The HOPE Scholarship is "a wrong road taken," concludes Wolanin, calling the program "a cautionary tale" that should be used to inform and guide future decisions about federal higher education policy.

It also should stand as a cautionary tale to inform and guide decisions about K-12 education policy on the benefits of tax credits vs. vouchers.

George A. Clowes is managing editor of School Reform News, *a monthly publication of The Heartland Institute.*

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Where do elected officials get the information they need?

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Education

Ten Years of School Choice in Milwaukee

Pilar Gomez

Pilar Gomez is a school choice parent in Milwaukee, Wisconsin.

The Milwaukee Parental Choice Program (MPCP) turned 10 years old in 2001. I'm overwhelmed by the difference it has made for our children.

As a mother of four children—three of whom use school choice—I know first-hand that school choice has created higher standards, more accountable schools, and more active parents. Since both public and private schools have improved with school choice, not only do we have more real options as parents, but all of those options are better. This revolution in education should be expanded to every city in America.

THE DIFFERENCE CHOICE MAKES

My oldest son, Andres, is a perfect example of how school choice has made a difference.

When the MPCP was expanded in 1995, we enrolled Andres in third grade at St. Lawrence Elementary School, a private school, as a school choice student. As a result of a court injunction against the expansion, we couldn't afford to keep our daughter there, but with Andres's history of struggles, we knew we had to make sacrifices to keep him at St. Lawrence.

> *I know first-hand that school choice has created higher standards, more accountable schools, and more active parents.*

At St. Lawrence, the teacher told me right away that, even though Andres was not a behavior problem, he had trouble maintaining focus for more than a couple of minutes. Teachers at his public school had never noticed because Andres was well behaved . . . and because their expectations for his academic performance were not high.

Smaller classes at St. Lawrence allowed his teacher to recognize there was a problem, but we decided to move him to public school because they had more resources to cope with his special needs. This is the beauty of school choice: My child attends the school that's best for him, whether it is public or private.

Andres now attends Prince of Peace, a private school near our home, through the MPCP, which expanded in 1997 to include religious schools after the Institute for Justice helped beat back legal challenges from the teachers' unions. This school has resources to address his special needs that it didn't have before school choice expanded. Andres is flourishing here; his academic performance is improving because teachers have higher expectations, and—for the first time—he feels like he's normal.

EVERY CHILD DESERVES CHOICE

Prince of Peace is the right school for Andres, but all of my children have different needs. Not all of them need a religious education or a special education, but all of my kids do need a quality education.

Public schools are feeling the pressure of competition that school choice has prompted, and they are responding. Milwaukee Public Schools are advertising to bring students back. They're making improvements to treat students more like respected individuals than bodies in a classroom.

There's still a long way to go, but the accountability that school choice brings is moving public schools, as well as private schools, in the right direction.

Parents are even becoming more involved in both public and private schools because now that they have options, they also feel they have more of an influence on the success of their children's education.

Andres's journey to academic success has been rocky, but his newfound self-worth is priceless. He is only one child out of millions. *Imagine how much of a difference we can make* if we expand school choice nationwide!

What I see in Milwaukee should happen in schools across America. Rather than continuing to pump money into saving the public school system, we need to figure out ways to say "yes" to saving our *children* by offering them education that works, no matter whether it is public or private, secular or religious.

Every child is different, and we've sacrificed far too many of them already.

MPCP, BY THE NUMBERS

The number of students using taxpayer-funded vouchers to attend private schools in Milwaukee rose 11 percent between 2000 and 2001—from 9,638 to 10,739—according to enrollment figures from the Wisconsin Department of Public Instruction.

Charter school enrollment increased to 2,192 students, while enrollment in the Milwaukee Public Schools remained essentially unchanged at 103,418 students.

Publicly funded choice schools in Milwaukee now serve more than 1 in 10 (11.1 percent) of the 116,349 students in the city who are receiving a publicly funded education.

If the choice school students were instead enrolled in MPS schools at MPS's average cost per student of $9,801, the costs would be $52.3 million higher. This $52.3 million represents real cost savings to taxpayers.

Source: "Voucher Use Tops 10,000 in Milwaukee," *School Reform News*, December 2001.

FOR MORE INFORMATION...

The Effectiveness of School Choice in Milwaukee. Jay Greene, Paul Peterson, and their colleagues—all researchers at Harvard University and the University of Houston—find that low-income minority students in Milwaukee perform better with choice. (Harvard University/ University of Houston, 1997).

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http://www.heartland.org/**pdf/21844y.pdf** (24 pp.)
http://www.heartland.org/**pdf/21844z.pdf** (23 pp.)

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Environment

David W. Riggs

David W. Riggs is director of land and natural resource policy at the Competitive Enterprise Institute.

The Road Less Traveled

Seeking to advance an environmental legacy and under pressure from environmental lobbying organizations, the Clinton administration in January 2001 passed the roadless area rule. The rule prohibits road building, logging, and general economic activity on nearly 60 million acres of public land.

Although the rule's stated purpose is to protect environmental health, in practice it makes human management of the national forests more difficult, *jeopardizing* forest health and local-level input.

RULE REACHES FAR AND WIDE

The roadless rule covers 38 states. When combined with the 35 million acres already in the nation's official wilderness (roadless) system, the full area in wilderness status now approaches the size of California. The rule covers 5 percent of the total land area of the United States and almost half of the 192 million acres of the national forest system.

> *The roadless rule covers 5 percent of the total land area of the United States and almost half of the 192 million acres of the national forest system.*

Because the roadless rule affects such an enormous portion of public lands, and because it affects so many communities that in the past had some say over local land use, Idaho, Colorado, and Alaska forced the rule to be reviewed in federal court.

In May 2001, Judge Edward Lodge from the Idaho federal court halted the rule on the grounds it ignored basic principles of environmental health and public participation. The Bush administration's Department of Justice decided not to appeal the decision ... but environmental groups did. They are now awaiting an appeals court decision, which will determine if the rule is reinstated.

Although environmental groups seem preoccupied with man's involvement in nature, they may increase environmental harm by shutting out man. As Judge Lodge noted in his decision, "there is a substantial possibility that the roadless rule will result in irreparable harm to the National Forests."

Federal forest management has allowed dead and dying wood to accumulate in forests, which increases the likelihood of severe fires, threatens the lives and property of people who live near the forest, and damages the ecological health of forests.

While forests require intensive management, federal land management agencies have mismanaged lands in the past by suppressing all fires. The roadless rule exacerbates this wrong-headed policy by making it more difficult for people to gain access to remove excess fuels.

RULE NEVER WAS JUSTIFIED

There was, of course, some groundwork performed for establishing the rule. Under Clinton's direction, the U.S. Forest Service (USFS) published a draft environmental impact statement to provide the basis for the roadless rule. According to Environment News Service, the rule underwent more than a year of public review and comment, including more than 600 public meetings across the United States. Hundreds of thousands of people participated in the public process, which generated more than 1.6 million written and oral comments that the Forest Service considered in issuing its preferred alternative.

Randal O'Toole, senior economist at the Thoreau Institute, was among those who commented on the proposal. He reviewed the rule and concluded the USFS failed to justify it in three ways:

- USFS did not show that a nationwide ban on road construction is necessary or appropriate for protecting environmental values—such as water quality, wildlife, and recreation.
- USFS failed to show that all of the designated roadless areas required protection.
- USFS failed to consider alternatives that could protect environmental health and reduce costs.

The roadless rule was a last-minute political decision. It takes management decisions away from local residents and circumvents the usual decision-making process for forest management. The decision in the rule to allow areas under 5,000 acres to be managed locally is a good one, but this logic should be followed all the way through. Local forest planning processes would be better at evaluating road and forest needs because they have an understanding of community needs.

A BETTER OPTION

In order to keep a forest healthy and its neighbors safe from catastrophic fire, and to keep a promise of management that incorporates the knowledge of local people, the roadless rule should not be reinstated.

Instead, the Bush administration has the option to propose new roadless regulations that protect forest health and incorporate local decision-making. Such a move would undoubtedly be viewed by some as taking the rare and courageous path of challenging the environmental establishment—a choice of roadless or the road less traveled.

FOR MORE INFORMATION...

The National Forests: For Whom and for What? Resolving the management dilemmas of the Forest Service will require asking whether information and incentives can be improved at the national level by more regulations and planning laws, or whether devolution to more local management levels is necessary. (PERC, August 2001, 33 pp.)

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Health Care

Twila Brase

Public health nurse Twila Brase is president of Citizens' Council on Health Care.

9/11: An Excuse for State Control

State public health officials could soon become the most powerful people in America.

On October 23, 2001, the Centers for Disease Control and Prevention (CDC) released a draft document health officials hope every state in the union will adopt.

The Model State Emergency Health Powers Act pulls no punches. Any time a public health emergency is declared by the governor, state health agencies would assume control over the state's citizens, medical services, commerce, property, and institutions.

UNACCEPTABLY BROAD AUTHORITY

Following on the heels of the September 11 terrorist attack, the Act has been portrayed as the federal answer to bioterrorism. Yet, its definition of "public health emergency" extends far beyond bioterrorism, including illness or health conditions caused by epidemic or pandemic disease.

"Epidemic and pandemic disease" are undefined by the Act, leaving public health officials ample room to make their own interpretations.

> *If the measure is enacted, health departments will wield enormous power over individual citizens for what could be a long period of time.*

The *American Heritage Dictionary* defines epidemic as "an outbreak of a contagious disease that spreads rapidly and widely." Not always, say federal health officials. A September 2001 press release from the CDC claimed, "The epidemics of diabetes and obesity are clearly escalating in the United States today."

Although no governor will declare a public health emergency for obesity, the lack of clear definitions gives the Health Powers Act unacceptably broad authority. If the measure is enacted, health departments will wield enormous power over individual citizens for what could be a long period of time. The Act permits emergencies to be declared for a duration of between 30 and 60 days ... but there is no limit to how many emergencies can be declared per year.

9/11 MERELY AN EXCUSE

The Act's proponents claim the threat of bioterrorism demands such imposing authority. But the language of the Act tells of a much different motivation. Public health officials are using the Act to advance three long-term pet projects: nationwide health care surveillance, mandatory vaccination, and control over the provision of health care services.

Under the Act, health officials can force citizens to submit to medical examinations, treatment, and vaccination. Officials are also authorized to assume control of health care facilities and perform an unlimited number of laboratory tests on individuals without their consent. Genetic testing and DNA sampling are not excluded, possibly leading to a national DNA databank.

Doctors who refuse to comply with health department demands can be charged with a misdemeanor. If no cooperation is forthcoming, health officials can authorize "any qualified person" to carry out their orders. In addition, all state licensing requirements for health care personnel can be waived.

Resistant citizens are treated as criminals. Charged with a misdemeanor, they can be forced to comply, and/or be placed in quarantine with or without a court order. Although detained individuals are allowed to request and receive a hearing, health officials can quarantine a person for as long as they deem "necessary," unless a judge says otherwise. This is what passes for due process in the proposal.

NO CONSTITUTIONAL AUTHORITY

Apparently, a deluge of constitutional challenges is expected. The Act permits state officials to identify and train "personnel to serve as emergency judges"—a questionable activity at best.

The Act also authorizes the violation of patient privacy. During a declared emergency, the medical records of individuals under the care of a public health authority—conceivably every person in the state—can be shipped to unnamed federal agencies.

Regular reporting on individuals is also required. Even when a public health emergency is not in effect, health care professionals and pharmacists must evaluate and report to the government those patients whose illness and prescription use may indicate the emergence of a public health threat. Sanctions are possible if the data are not delivered. To reduce their risk of criminal charges, expect health care institutions to establish direct lines to the government with outgoing reports on every patient, every illness, every day.

"Health Powers Act" is the perfect short title for this far-reaching proposal. In the midst of fears created by current events, health officials have asked for the power to suspend constitutional rights and civil liberties to implement their own Orwellian agenda.

State governors and legislatures may very well agree to this new authority. The National Governors' Association and the National Conference of State Legislatures collaborated on writing the Act.

Stay tuned. The 2002 legislative session may clearly show which state legislators took an oath to defend the U.S. Constitution, and which ones merely mouthed the words.

FOR MORE INFORMATION...

How to Cure Health Care. The United States spends a mind-boggling percentage of its GDP on a health care system that virtually everyone agrees is a disaster. Is there any way out of this mess? There is—and Milton Friedman has found it. (Hoover Digest, 2001, 17pp.)

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Law

Clint Bolick

Clint Bolick is vice president and director of litigation for the Washington, DC-based Institute for Justice, which represents parents in the Cleveland school choice case.

Constitution Favors Parental Autonomy, Religious Liberty

Editor's note: This issue's Law column excerpts the brief filed by the Institute for Justice in the Cleveland Pilot Project Scholarship Program The U.S. Supreme Court is expected to rule on the case this summer.

At its core, the Cleveland Pilot Project Scholarship Program effects a transfer of power over one of the most basic decisions in a child's education—the decision about which school a child will attend—from State officials to parents.

Far from representing some radical departure, the program harmonizes with our rich constitutional tradition that recognizes the central role of parents in the educational upbringing of their children. ... As the Court declared in *Pierce v. Society of Sisters*, 268 U.S. 510, 535 (1925),

> The fundamental theory of liberty upon which all governments in this Union repose excludes any general power of the State to standardize its children by forcing them to accept instruction from public teachers only. The child is not the mere creature of the State; those who nurture him and direct his destiny have the right, coupled with the high duty, to recognize and prepare him for additional obligations.

The Cleveland voucher program accords with the fundamental constitutional principles of parental autonomy, equal educational opportunities, federalism, and religious liberty.

Quite apart from the thrust of the *Pierce* line of cases with regard to limiting state power, surely it is permissible, even laudatory, for the State to promote the "fundamental rights of the individual" by allowing parents "fair opportunity to procure for their children instruction which they think important. ..." *Farrington*, 273 U.S. at 298-299.

EQUAL OPPORTUNITY

Equality of educational opportunity is one of our most basic and essential civil rights. This Court declared in *Brown*, 347 U.S. at 493, that education, "where the state has undertaken to provide it, is a right which must be made available to all on equal terms." ...

Private schools may be enlisted to fulfill the mandate of educational opportunity. This Court has recognized in the context of the federal Individuals with Disabilities Education Act that where the public schools have defaulted on the obligation to provide a free appropriate education, students are entitled to obtain such education in private schools at public expense. *School Comm. of Burlington v. Dep't of Educ. of Mass.*, 471 U.S. 359 (1985). Likewise, parental choice programs can operate as a "life preserver to ... children caught in the cruel riptide of a school system floundering upon the shoals of poverty, status-quo thinking, and despair." *Davis v. Grover*, 480 N.W.2d 460, 477 (Wis. 1992) (Ceci, J., concurring) (describing the Milwaukee Parental Choice Program).

... [I]f equal educational opportunity is a constitutional imperative, a State's efforts to promote such goals ought to merit substantial judicial deference.

FEDERALISM AT ITS BEST

... As Justice Powell observed in *San Antonio Indep. Sch. Dist. v. Rodriguez*, 411 U.S. 1, 50 (1973), "No area of social concern stands to profit more from a multiplicity of viewpoints and from a diversity of approaches than does public education." In particular, "[e]ach locality is free to tailor local programs to local needs. Pluralism also offers some opportunity for experimentation, innovation, and a healthy competition for educational excellence."

... This case obviously has serious ramifications for educational reform all across America. In our federalist system, the State of Ohio's good-faith efforts to expand educational opportunities through parental choice merit this Court's deference.

FREE EXERCISE

... [T]he establishment clause is not the only clause in the First Amendment that speaks to religion; it is followed by a command that the State shall not impair the free exercise of religion.

Accordingly, this Court has charted a course of neutrality. As this Court stated in *Rosenberger*, 515 U.S. at 839, "A central lesson of our decisions is that a significant factor in upholding governmental programs in the face of Establishment Clause attack is their neutrality toward religion."

... Although the First Amendment does not create an affirmative obligation on the part of the State to create parental choice options that include public, private, and religious schools, surely it follows from the command of neutrality that it is constitutionally *permissible*—even prudent—to do exactly that. That is precisely the course of neutrality the State has charted in designing this program.

Given that the Pilot Project Scholarship Program accords with the fundamental constitutional principles of parental autonomy, equal educational opportunities, federalism, and religious liberty, respondents ought to face a mighty burden in seeking to invalidate it on establishment clause grounds.

FOR MORE INFORMATION...

Brief on the Merits. The 63-page brief filed by the Institute for Justice before the U.S. Supreme Court is available on its Web site at**http://www.instituteforjustice.org/cases/school/facts/body.shtml.** Or,

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Privatization

L. Lynn Kiesling

L. Lynne Kiesling is director of economic policy and director of privatization research at Reason Public Policy Institute, and senior lecturer of economics at Northwestern University.

Security and the Push-Pull of Privatization

FOR MORE INFORMATION...

Privatization 2001. The Reason Public Policy Institute's 15th annual report on privatization offers scores of examples of how the private sector provides a wide range of government services more effectively and at lower cost than the government. (Reason Public Policy Institute, 2001)

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http://www.heartland.org/**pdf/65044e.pdf** (23 pp.)

Post-September 11 changes continue to ripple through our lives, including the policy arena for privatization of government services.

The current privatization environment reveals a push-pull dynamic: Increased security concerns typically push toward more government control (as we have seen with airport security), while budget concerns and decreased tax revenue pull away from government service provision and toward private contracting.

This push-pull shows a change in priorities, with increased emphasis on safety and security and reduced emphasis on efficiency and controlling costs. With the economic downturn, though, and its effects on state and municipal tax revenues, the pendulum swing is unlikely to remain at "security at any cost" for very long.

The next round of state and local budgets will give a better indication of whether the push-pull dynamic will push governments away from privatization in the longer run because of security concerns, or pull them in because of the ongoing need to manage costs and provide accountability to voters.

RETRENCHMENT IN NEW ORLEANS

At the municipal level, the only major retrenchment is a planned water privatization in New Orleans, Louisiana.

The Sewerage & Water Board of New Orleans (S&WB) began exploring privatization and public-private partnership in April 1999, when confronting the prospect of substantial capital expenditures and their implications for water rates. After a six-month study, S&WB's financial advisors suggested S&WB pursue privatization to generate savings that would enable them to avoid rate increases as high as 45 percent.

S&WB solicited proposals for either management of the system, or combined management, operations, and maintenance. The receipt of proposals was initially set for August 2001, with amendments and revised RFPs through the fall, and a final determination of a contractor in December 2001. That process would culminate in the largest combined water and wastewater privatization ever in the United States.

Even before September 11, the Bureau of Governmental Research (BGR), a nonprofit New Orleans policy research organization, released a report recommending several changes to the privatization process. The summer and early fall saw some refinements of the process, but those refinements ground to a halt on September 11.

Soon after the terrorist attacks, water and wastewater system operators around the country moved to a higher state of alert to ensure the safety and security of municipal water systems. Priorities shifted from reducing operating costs to reducing risks of harm to water systems.

On October 18, the New Orleans City Council enacted several changes to the privatization process, including a voter referendum scheduled for February 2, 2002 to change the Home Rule Charter; the change would require voter approval of any privatization that would affect $1 million or more of S&WB's operations.

One Council member has even gone so far as to introduce a resolution encouraging S&WB to request the involvement of the FBI and other law enforcement agencies in approving the "managed competition" process. The resolution also requests that S&WB suspend its privatization process until completion of an extensive safety review and investigation.

IS SECURITY A TROJAN HORSE?

As the New Orleans case illustrates, it is difficult to distinguish between the reasonable shift of priorities toward security, and the use of "security" as an excuse to quash privatization proposals. In many ways, this security/budget tradeoff is a false dichotomy.

Well-defined performance-based contracts make it possible for government officials to have it both ways: to provide heightened security at a reasonable cost.

Many examples exist of private contractors providing services to governments in high-security situations, with no need for active oversight from the FBI and law enforcement to ensure accountability. In those cases, performance-based contracts give private contractors incentives consistent with security. Such contracts are certainly possible in S&WB.

Furthermore, performance-based contracts would ensure S&WB is not saddled with an unnecessarily complex bureaucratic and legal process. Such a process would do nothing to improve security, but it *would* result in higher costs for residents and taxpayers relative to the cost savings they could expect from private contracting.

AN ISOLATED EXAMPLE

New Orleans' S&WB is an isolated example of movement away from private contracting in the quest for increased security. As state and municipal budgets reflect decreases in tax revenues, the falseness of this dichotomy will become more evident. Well-defined performance-based contracts make it possible for government officials to have it both ways: to provide heightened security at a reasonable cost.

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Regulation

Susan E. Dudley

Susan E. Dudley directs the Public Interest Comment and Regulatory Accounting projects of the Regulatory Studies Program of the Mercatus Center at George Mason University.

Bush Regulation Czar Takes Charge

Dr. John Graham, President George W. Bush's new administrator of the Office of Information and Regulatory Affairs (OIRA) in the Office of Management and Budget, has been under attack from advocacy groups from the day he was nominated for the position.

Graham's opponents claim he is an "industry-backed academic hostile to basic health, safety, and environmental standards" who will "dismantle basic consumer protections under the pretense of applying 'sound science.'" After a grueling hearing, the Harvard professor won Senate confirmation in July 2001 by a 61-37 vote.

Graham has certainly been more active than recent predecessors. Since October 2001, he has returned 16 rules to agencies for reconsideration—compared to the nine rules returned by OIRA during the entire Clinton administration. Graham has also sent two "post-review" letters that, while allowing a proposal to go forward, critiqued certain regulatory options or supporting analysis.

WITHIN HIS AUTHORITY

His critics point to these actions as evidence he will exert too great an influence on regulatory policy, and that the Bush administration will undermine regulatory actions of agencies. Actually, Graham is simply implementing the regulatory oversight responsibilities that every President over the last three decades has seen fit to include in the Executive Office of the President.

President Clinton, when he took office in 1993, rescinded the Executive Order (E.O. 12291) that had guided regulatory review under Presidents Reagan and Bush. But he replaced it with Executive Order 12866, which in many ways resembled its predecessor. It reinforced the philosophy that regulations should be based on an analysis of the costs and benefits of all available alternatives, and that agencies should select the regulatory approach that maximizes net benefits to society unless constrained by law.

Graham's actions suggest he plans to implement the procedures and principles of E.O. 12866 vigorously. A September 20, 2001 memorandum to agencies highlights and reinforces key aspects of the Executive Order, reflecting Graham's interest and expertise in benefit-cost analysis and risk assessment.

In his memo, Graham emphasized the importance of Regulatory Impact Analyses (RIAs) and the principle that "in choosing among alternative regulatory approaches, agencies should select those approaches that maximize net benefits." The memo explicitly encourages agencies to have draft RIAs "reviewed by agency economists, engineers, and scientists, as well as by agency attorneys, prior to submission to OIRA."

The memorandum also stresses the importance of basing regulatory action on "objective, realistic, and scientifically balanced" assessments of risk or environmental hazard, and encourages agencies to "subject RIAs and supporting technical documents to independent, external peer review by qualified specialists."

PROACTIVE "PROMPT LETTERS"

The memorandum also introduces a new mechanism created by Graham—the "prompt letter," which suggests to an agency "an issue that OMB believes is worthy of agency priority." Prompt letters could suggest "that an agency explore a promising regulatory issue for agency action, accelerate its efforts on an ongoing regulatory matter, or consider rescinding or modifying an existing rule." Graham's memorandum requests that agencies respond to prompt letters, normally within 30 days.

On September 18, OIRA issued two prompt letters. One encouraged the Food and Drug Administration to issue a final rule requiring a change in the food labeling requirements for trans-fatty acids. The other asked the Occupational Safety and Health Administration to give high priority to the requirement that automated external defibrillators be placed in the workplace.

Since October 2001, [Graham] has returned 16 rules to agencies for reconsideration—compared to the nine rules returned by OIRA during the entire Clinton administration.

An October 18, 2001 memorandum from Graham to OIRA staff directed them to "increase transparency in [the] regulatory and paperwork review processes," particularly through electronic sources. Graham says he would like to "increase public understanding of OMB's regulatory review responsibilities, thereby allowing public scrutiny, criticism, and praise of what we do."

It appears we are likely to see from Graham's OIRA more rigorous executive oversight and a greater emphasis on ensuring regulations provide benefits greater than costs. The prompt letters, in particular, reveal an OIRA that focuses on technical analysis, but does not stop first to question the need for a federal role in the marketplace.

Nevertheless, these new mechanisms ensure that the process will be transparent and the record of decisions will be available to compare to the economic principles that George W. Bush, like his predecessors, has endorsed.

FOR MORE INFORMATION...

A Better Way to Regulate: What Government Can Learn from the Market. Joseph V. Kennedy, a lawyer and economist with the Manufacturers Alliance, explains that efforts to "reinvent government" must be guided by a theory of the proper role of government, plus an appreciation for the strengths and weaknesses of private, competitive markets. (*Policy Review*, October & November 2001, 19pp.)

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Taxes

Bill Ahern

Bill Ahern is communications director of the Tax Foundation.

U.S. Economy Needs Permanent Stimulus

In a *Fiscal Policy Memo* addressed to tax policymakers on Capitol Hill and in the Bush administration, the Tax Foundation has urged that sound principles of tax policy guide the selection of tax code changes in the economic stimulus package currently being formulated.

Lawmakers were urged to adopt permanent tax code improvements over targeted, temporary measures because sustainable economic growth requires permanence. Temporary tax relief and tax holidays reduce the tax burden for affected individuals and companies in the short run, but they do not change long-run economic behavior ... and therefore do not promote sustainable economic growth.

PRO-GROWTH POLICY MENU

All taxes are ultimately borne by individuals in their capacities as consumers, employees, and owners of capital. For that reason, a mixture of commendable tax reforms on the individual and business sides of the tax code were recommended to the nation's taxwriters.

Accelerate Depreciation Schedules. Ideally, all corporations should be able to expense all investments. The most ambitious step in this direction that is politically possible should be a top priority. Congress and the President should not pick and choose industries. An across-the-board acceleration of depreciation is the best method of delivering immediate pro-growth tax relief without further discriminating against any sectors or industries.

Eliminate the Corporate AMT. Long considered one of the most complex areas of the tax code, the corporate alterative minimum tax hits companies when they can least afford it, during an economic downturn. The CAMT raises little revenue, distorts investment incentives, imposes compliance costs that exceed the amount of collections it produces, and does not improve the fairness of the tax system. The Joint Economic Committee has estimated that CAMT compliance costs can be 16.9 percent of a company's costs of filing federal income taxes. Applying this percentage to a recent Tax Foundation calculation of the direct cost for all corporate income tax compliance, the CAMT costs roughly $6.81 billion annually—far more than the $3.4 billion the tax collected in 1998, the most recent year for which official data are available.

Reduce Marginal Rates. Make immediate the marginal rate cuts scheduled to go into effect in 2004 and 2006. Reductions in marginal rates are key to any pro-growth tax relief. Marginal rate reductions provide immediate relief to all taxpayers subject to the income tax and promote long-term, sustainable economic growth.

Reduce Payroll and Savings Taxes. If payroll taxes were lowered enough to eliminate the Social Security "surplus," all workers, including those that do not face an income tax liability, would get immediate tax relief. As a companion measure, Congress and the President could make immediate the pension and IRA provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001, increasing the limits on allowable contributions to conventional and Roth IRAs and other retirement savings programs. Private savings and investment should increase, potentially making long-term reform of Social Security more likely.

Reduce Transportation Excise Taxes and Spending. A reduction in transportation-related excise taxes could be coupled with a reduction in wasteful transportation spending, especially a limitation on Congressional earmarks for demonstration projects.

Make the Provisions of the 2001 Tax Cut Permanent. All the provisions passed as part of the Economic Growth and Tax Relief Reconciliation Act of 2001 sunset by at least December 31, 2010. Making all the provisions permanent will enhance the pro-growth characteristics of the bill, because people will change their fundamental patterns of behavior.

Lawmakers were urged to adopt permanent tax code improvements over targeted, temporary measures because sustainable economic growth requires permanence.

Permit Cash Method of Accounting. Adopt the Joint Committee on Taxation's recommendation to permit taxpayers with less than $5 million of average annual gross receipts to use the cash method of accounting. Expand this recommendation to include all sole proprietorships and partnerships. This will complement the acceleration of depreciation schedules, which benefits corporations by granting similar treatment to small and medium size businesses. While large corporations tend to make the news, small and medium size companies drive the economy.

Reduce Capital Gains Taxes and Eliminate Holding Periods. Ideally, all taxes on capital gains from previously taxed investments should be eliminated. Short of this, rates should be reduced as far as possible, and holding period restrictions should be eliminated.

The Tax Foundation also urged lawmakers to resist the urge to increase spending beyond what is necessary for fighting the war against terrorism. Government spending is a poor alternative to tax relief as an economic stimulus, because it takes money out of the productive private sector.

FOR MORE INFORMATION...

Income Mobility and the Fallacy of Class-Warfare Arguments Against Tax Relief. Opponents of tax relief often criticize common-sense reforms because they claim "only the rich" will benefit. This is a meaningless argument, however, because the mix of individuals and family who make up "the rich" and other income groups changes constantly. (The Heritage Foundation, March 2001, 3pp.)

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Technology

Broadband and Narrow Thinking

Bartlett D. Cleland

Bartlett Cleland is director of the IPI Center for Technology Freedom. Formerly he served as Technology and Policy Counsel for Americans for Tax Reform, and earlier he was counsel to Senator John Ashcroft.

Without a doubt, legislators have a predisposition in favor of regulating industry by imposing taxes. Over and over again, policymakers at the local, state, and national levels have proved the old adage true: When the only solution you have is a hammer, all problems tend to look like nails.

Deployment of broadband technologies is a case in point. To address the "problem" of continued robust development of the Internet and related technologies, policymakers are poised to "fix" the problem with taxation.

Broadband, according to the Federal Communications Commission, is a "descriptive term for evolving digital technologies that provide consumers a signal-switched facility offering integrated access to voice, high-speed data service, video-demand services, and interactive delivery services."

In everyday language for everyday people, broadband is a technology that allows people to send all types of data through high-speed, "always on" Internet connections.

To stimulate the economy and revive the high-tech sector, lawmakers should resist their regulatory urges.

SKY'S THE LIMIT

In some ways, broadband allows our imaginations to be the only limit on our ability. Broadband makes possible Internet telephony, digitally delivered television and movies, interactive distance education, electronic home doctor visits, home monitoring, and much more. With the technology's expansion, such activities will be a pedestrian, yet robust, reality.

If broadband technologies are not permitted to flourish, some of the more exciting applications—including those used for educational and medical purposes—will never happen. Without the expansion of broadband, whole new industries based on a more advanced Internet will be stymied, and the continued development of our high-tech and computer industries will be slowed. Without an adequate supply of broadband, real demand for other cutting-edge technologies will never develop.

TOO NARROW A FOCUS

Policymakers at the federal and state level, however, seem bent on blocking broadband's advancement by fitting this new and powerful technology with the same regulatory yoke that governs the telecommunications industry's "narrowband," or voice services, technology.

The two are clearly different. The FCC found in analyzing the AOL-Time Warner merger: "Residential high-speed Internet service constitutes a discrete market that must be considered separate from the residential narrowband market."

Broadband today is in a position similar to that enjoyed by the cellular industry more than 10 years ago: growing without regulation. Already, more than 5.5 million people in the United States access the Internet with high-speed cable modems, and another 2.3 million with DSL technology.

Allowing the broadband market to continue to grow by adopting a long-term deregulatory posture would allow telecommunications companies to provide interested users with DSL technologies at a more rapid pace. There is every reason to believe such a hands-off stance would produce the same results with broadband as it did with cellular: More consumers access the technology for less money.

A UNIQUE MARKET

Given the realities of competition and the lessons of the cellular industry, policymakers at all levels should treat broadband as the unique technology market it is.

If telecommunications companies want to build robust facilities that would deploy broadband into areas typically under-served by the best technologies, they should not be burdened with outdated regulations that require them to share those facilities.

Firms lose their motivation to build facilities in under-served areas when they are forced by the federal government to allow others to profit from the financial risks they take. The negative effects fall most heavily on those who are left without access to the best technologies.

Moreover, antiquated regulatory policies act as a disincentive to technological advancement; modern, deregulatory policies would encourage it.

Over the past several years, technology has progressed well beyond even the best efforts at regulation. In particular, the notion that the only competition for traditional voice communication is similarly delivered voice communication is outdated. Without even a stretch of the imagination, most Americans easily understand that cell phone usage, voice messaging over the Internet, and instant messaging and similar services represent definite, direct competition to the traditional telephone.

The regulatory schemes of the past continue to hinder competition and innovation in the telecommunications industry. To stimulate the economy and revive the high-tech sector, lawmakers should resist their regulatory urges, lay down their regulatory hammers, and take pride in the resulting productivity.

FOR MORE INFORMATION...

Access to the Internet: Regulation or Markets? Some Internet Service Providers, content providers, and local phone companies want access to cable networks on terms as favorable as those the cable companies offer to their own Internet affiliates. Granting those demands would endanger future investments in broadband systems, pose insurmountable technical problems, and harm rather than benefit consumers. *(The Heartland Institute, September 1999, 68 pp.)*

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Welfare

Michael B. Barkey

Michael B. Barkey is president of the Center for the Study of Compassionate Conservatism and editor of *The Next Phase of Welfare Reform* (forthcoming).

Reviving the Old Consensus

"In our generosity we have created a system of hand-outs, a second-rate set of social services which damages and demeans its recipients, and destroys any semblance of human dignity that they have managed to retain through their adversity. In the long run, welfare payments solve nothing, for the giver or receiver; free Americans deserve the chance to be fully self-supporting."

These wonderfully prescient words flowed from Bobby Kennedy's lips during the heyday of the Great Society. The welfare state, said Bobby, has "largely failed as an anti-poverty weapon." His brother John agreed: "No lasting solution to the problem [of poverty] can be bought with a welfare check," reported the *New York Times*.

Thirty years before Camelot, in the midst of the Great Depression, Franklin Roosevelt introduced Aid to Dependent Children (ADC). At first, ADC was little more than assistance to poverty-stricken widows struggling to avoid placing children in orphanages. But over time, ADC grew to become Aid to Families with Dependent Children (AFDC), the welfare entitlement that drew the Kennedys' ire.

Roosevelt had issued a stern warning when he introduced ADC that went ignored: "Continued dependence on relief induces a spiritual and moral disintegration fundamentally destructive to the national fiber. To dole out relief in this way is to administer a narcotic, a subtle destroyer of the human spirit."

WITHOUT A VISION, THE PEOPLE PERISH

Liberal icons of the 1990s lacked the vision of their ideological forefathers. The American Dream that anyone can succeed through perseverance and hard work disappeared from the liberal mind during the 1960s and 1970s, giving rise to a dramatic expansion of the welfare state. The poor came to be viewed as helpless victims ... and became welfare's victims instead. Dependency replaced opportunity for America's poor.

Fortunately, the 1990s ushered in an era of conservative governance, which ended AFDC and conditioned public assistance—now, *Temporary Assistance* for Needy Families (TANF)—upon work.

Liberals warned of great horrors. Daniel Patrick Moynihan proclaimed the 1996 welfare reform law "the most brutal act of social policy since reconstruction." Marian Wright Edelman, president of the Children's Defense Fund, described it as "the biggest betrayal of children and the poor since the CDF began."

Jesse Jackson and Jesse Jackson Jr., now in Congress, described work requirements as akin to slavery. Even high-level Clinton administration officials resigned in protest, one penning an article titled "The Worst Thing Bill Clinton Has Done." And throughout the debate, Senator Ted Kennedy, the younger brother of John and Bobby, remained one of welfare reform's staunchest foes.

FACTS SPEAK FOR THEMSELVES

Unlike liberalism at the end of the twentieth century, the liberalism of JFK, Bobby Kennedy, and FDR—the darlings of the Democratic Party—had an unyielding faith in people's ability to overcome seemingly insurmountable obstacles. With welfare reform, people were again challenged to make the most out of their lives, which they did.

Since 1996, the country's welfare caseload has been cut in half. There are 4.2 million fewer people—including 2.3 million fewer children—living in poverty. The poverty rates for black children and single mothers have both fallen to their lowest points in U.S. history. And there are nearly 2 million fewer hungry children today.

When given the chance and incentive to succeed—as the Kennedy brothers and FDR knew—most people take it.

> *During the 1960s and 1970s, ... the poor came to be viewed as helpless victims ... and became welfare's victims instead.*

A NEW CONSENSUS

The undeniable success of welfare reform has led some critics to reconsider their views. For instance, Wendell Primus, who resigned his position with the Clinton administration in protest, admitted in August, "welfare reform is working better than I thought it would. . . . The sky isn't falling. Whatever we have been doing over the last five years, we ought to keep it going."

SO WHAT HAVE WE BEEN DOING?

We are no longer devaluing the habits of self-reliance and individual responsibility that are critical to economic and social advancement. We have begun to do again what America always did in the past to help people raise their station in life: set them free.

What we are now seeing is the revival of an old consensus, whose adherents included such ideologically diverse figures as FDR, JFK, Bobby Kennedy, Barry Goldwater, Ronald Reagan, and Newt Gingrich—all of whom knew the American Dream to be real.

The next year, which will require reauthorization of the 1996 welfare reform law in a time of recession, will fortify this consensus, if federal lawmakers remain vigilant and state-level officials remain strong.

FOR MORE INFORMATION...

Solving President Bush's Urban Problem. Renowned urban analyst Myron Magnet predicts President George W. Bush can demonstrate that compassionate conservatism works for the poor: a constituency to which Democrats have long offered lip service but no true and lasting solutions. All that's required, explains Magnet, is restigmatizing illegitimacy and restoring civil order to inner-city neighborhoods. (*City Journal*, Winter 2001, 8 pp.)

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Desperately Seeking Adam Smith

By Tom Walton

Little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism but peace, easy taxes, and a tolerable administration of justice: all the rest being brought about by the natural course of things.

Adam Smith, Lecture in 1755

Adam Smith's *Wealth of Nations* and Thomas Jefferson's *Declaration of Independence* were both published in 1776. Together, they helped guide the destiny of two nations . . . and ultimately, the entire world.

Smith's economics and Jefferson's politics created the foundation for the unprecedented growth in economic prosperity and human liberties that ensued in the U.S. and other market-based economies.

It is said that Smith wrote *The Wealth of Nations* specifically with the American colonies in mind. He corresponded frequently while writing the great book with Benjamin Franklin, with whom he shared an enthusiasm for individual liberty and personal thrift. Jefferson thought highly of the book, calling it "in political economy, the best book extant."

The Founding Fathers knew that a system of commercial republicanism promised not just economic prosperity, but, in Smith's words, "order and good government, and, with them, the liberty and security of individuals."

At long last, my wife found the tombstone.... Tears welled in my eyes, I kissed the ground, planted a U.S. flag we had brought for the occasion, and whispered a prayer ... for what he has done for our country and for the world.

"NEARLY INVISIBLE HIMSELF"

Smith's key role in the history of ideas is not forgotten by experts. A recent poll ranked Smith the twentieth most influential person in the world during the last millennium, five places behind Jefferson and five places ahead of James Watt, the next highest-ranked Scot.

America has many monuments to Jefferson, and Scotland to Watt and other Scottish heroes. Alas, there are no monuments to Adam Smith.

Recently, my wife, Claudia, and I completed a pilgrimage to Scotland—the land of my mother's ancestors and the home of the founder of my profession, Adam Smith. Our search for evidence of Smith's life and times began at the University of Glasgow, where he had been Professor of Moral Philosophy, Chair of Logic, and Lord Rector (headmaster).

We began at the university's visitor's centre. The receptionists told us an office building now occupied the place where Smith had worked and that, regrettably, the bookstore had no busts, mugs, shirts, or other Smith mementos. They told us where we could find a statue of the most-quoted and -referenced economist in history.

After several false starts, we found it—in a corner of the University's zoology museum! No inscription—just a small card identifying him and his major works. The man who described the "Invisible Hand" had become nearly invisible himself.

Our next stop was Edinburgh. Smith had been Lord Rector at the University of Edinburgh and died there in 1790. I had been told Smith was buried close by in Kirkcaldy, where he was born in 1723. While on Edinburgh's Royal Mile, we happened upon a shopkeeper who told us Smith was buried in a churchyard only 100 yards up the street.

We found the churchyard and searched without success. The attendant at a local museum across the street said she was "almost certain" Smith's remains were interred in the churchyard. She checked a registry and, sure enough, there was Adam Smith's name! We went back to the churchyard to look again.

At long last, my wife found the tombstone. A worn inscription described him as the author of "The Wealth of Nations" and of "The Theory of Moral Sentiments." Tears welled in my eyes, I kissed the ground, planted a U.S. flag we had brought for the occasion, and whispered a prayer of blessings upon him for what he has done for our country and for the world.

Every room in our hotel was adorned with memorabilia of Scotland's most revered ancestors—including Sir Walter Scott, James Watt, Alexander Graham Bell, David Livingstone, and Robert Burns. Up the street were statues of Sir Walter, and of Smith's best friend and colleague, David Hume. But all that remained to memorialize Adam Smith was that statue in the zoology museum and obscure spot in the churchyard.

The next morning the local paper reported that more than 200 "anarchists" were going to shut down the city centre with their second annual demonstration against capitalism. We left the city early. I hope our flag is still there. I know our hearts are.

Tom Walton is an economist with General Motors and a member of the Board of Directors of The Heartland Institute.

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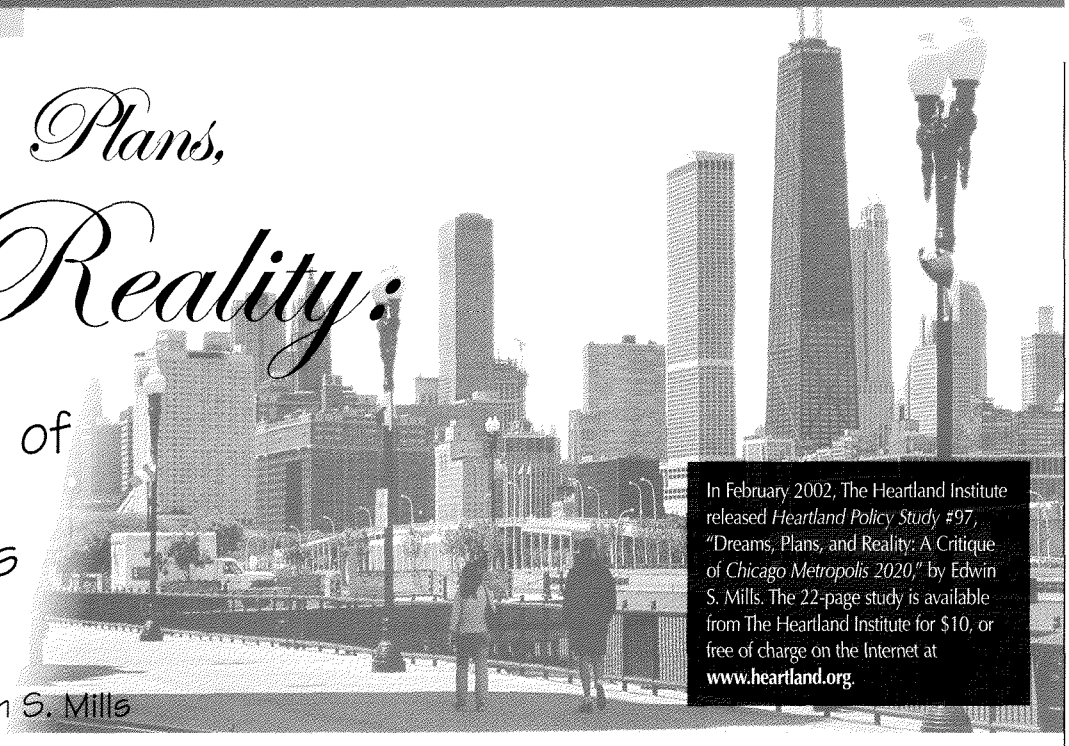
Excerpt

Dreams, Plans, and Reality:

A Critique of *Chicago Metropolis 2020*



In February 2002, The Heartland Institute released *Heartland Policy Study* #97, "Dreams, Plans, and Reality: A Critique of *Chicago Metropolis 2020*," by Edwin S. Mills. The 22-page study is available from The Heartland Institute for $10, or free of charge on the Internet at **www.heartland.org**.

By Edwin S. Mills

Edwin S. Mills is Emeritus Professor of Real Estate and Finance at Northwestern University's Kellogg School of Management and coauthor, with Bruce W. Hamilton, of *Urban Economics* (New York, NY: HarperCollins College Publishers, 1994, 5th edition).

Chicago Metropolis 2020, produced in 1999 by the Commercial Club, attempts to tell us *who* should do *what* to make the metropolitan area a more nearly ideal place. It is concerned with the six counties—Cook, DuPage, Kane, Lake, McHenry, and Will—that contain nearly all of the population and jobs in the official nine-county primary metropolitan statistical area. This critique subjects some of the report's important hypotheses to economic analysis.

EDUCATION: CORRECT DIAGNOSIS, WEAK PRESCRIPTION

Chicago Metropolis 2020 frankly acknowledges that U.S. public schools in general, and Chicago's inner-city public schools in particular, are poor and produce poorly qualified students and graduates. It recognizes that state and local public education authorities seek excessive bureaucratic control and overemphasize inputs (in particular, money) to the neglect of learning quality. It shows understanding that charter schools, discussed only briefly, are at least a first step toward circumventing some of the bureaucratic controls that hold back public schools.

Although the Commercial Club is undoubtedly genuine in its wish for less government control over schools, its recommendations would probably *increase* such controls. It advocates a state cabinet-level education department, encompassing the Illinois State Board of Education. It apparently would like the new department to oversee standard-setting as well as efforts to increase the supply of principals and teachers and improve school quality in general. But why should we believe this would work? Local education monopolies are bad enough; strengthening state control is likely to make things worse.

The Commercial Club's report contains some sound analysis of the problems facing public schools and the need to improve them, especially for the sake of disadvantaged children. The endorsements of competition and school choice in *Chicago Metropolis 2020* are right, but much too timid.

"SMART GROWTH" MYTHS LEAD TO ANTI-CAR AND PRO-PUBLIC TRANSIT BIASES

A basic defect of *Chicago Metropolis 2020* is its unjustified bias against automobile travel and in favor of fixed rail public transit use in Chicago. Competent transportation economists have known for 35 years that investment in urban fixed rail transportation systems is wasteful, yet the Commercial Club, along with other advocates of "smart growth," continues to be enamored with it.

The Commercial Club claims car ownership and use contribute to excessive suburbanization ("sprawl"), and hence to excess commuting and congestion. The argument is wrong in both its parts. Suburbanization *per se* does not lead to longer commutes or congestion: With two-thirds of both residents and jobs now located in Chicago's suburbs, it should be possible for workers to reside close to jobs in both the central city and suburbs. Land use regulations in the suburbs that mandate excessively low-density housing and commercial development, not private ownership of cars and trucks, cause sprawl.

Underpricing of metropolitan transportation of all kinds, not sprawl, is also a major cause of excessively long commutes and congestion. Commuters pay only a small fraction of operating and capital costs to travel by fixed rail from distant suburbs to central business districts. Bus and car travel is also underpriced, though to a lesser extent. By urging greater investment in public transit, the Commercial Club would unintentionally increase the tendency toward sprawl.

GETTING THE PRICES RIGHT: A BETTER WAY TO LIMIT SPRAWL

Use of roads and urban public transit are both underpriced. On urban roads, the appropriate user fee is what would be charged if road travel were provided by a competitive private sector. The government can approximate the private outcome by imposing fuel taxes. The appropriate fuel tax would be about five times its present level, say $2.50 per gallon, bringing the total fuel cost close to $4.00.

Such a large fuel tax increase would need to be federal, to avoid large distortions among state or local taxing jurisdictions. Americans would not, and

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should not, tolerate a net tax increase of the magnitude implied by my proposed fuel tax, so they should be promised a corresponding reduction in other taxes, probably federal income taxes. Unfortunately, Americans are properly cynical of such "tax swaps" because federal, state, and local governments have so often lied to the public about taxes.

Much higher fuel taxes would result in pervasive decreases in driving, as did high fuel prices during the gasoline crises of 1974 and 1980. People would omit some frivolous trips and carpool more, and at least a few would take public transportation. Over time, people would move to homes closer to where they work, or find work closer to where they want to live. Commuting miles could easily fall by 20-30 percent.

Building and improving roads would be a continual need, but this could be done at relatively low cost. The capacity of city streets could be increased by one-third or so by the expenditure of a few tens of millions of dollars on more one-way and reverse-direction streets and lanes, sequenced traffic lights, and off-street parking; discouraging on-street parking; and better enforcement of traffic controls.

LAND USE RESTRICTIONS: THE REAL CAUSE OF SPRAWL

Chicago Metropolis 2020 repeats the "smart growth" cliches about lost farmland and "open space," yet it fails to call for effective measures to rein in the real cause of sprawl: excessive restrictions on land use imposed by municipal authorities and increasingly by state and federal agencies.

During the last half century, local governments have developed a panoply of controls that enable them to dictate characteristics of housing development, maintenance, repair, and remodeling in the greatest detail. Such controls are applied less stringently in Chicago suburbs than in many other metropolitan areas, but they become more stringent every decade. Whatever justification is given for such land use controls, the result is to limit housing supply, raise housing prices, and push residential and commercial development farther and farther from the city core.

A basic defect of Chicago Metropolis 2020 is its unjustified bias against automobile travel.

Resource misallocation occurs because governments simply forbid development by private owners on their land. Federal wetlands and endangered species acts, federal and state waterfront development controls, and many other programs curtail development on private land. Such government programs simply confiscate private property rights and impose the costs of open space preservation on private owners. The result is to motivate governments to preserve excessive amounts of open space.

"THOU SHALT IMPOSE NO RESTRICTIONS ON HOUSING . . ."

The Commercial Club recommends new or expanded government programs to enable more minorities and low-income families to obtain suburban housing. This is hardly a novel suggestion: Since 1937, dozens of variants of many government housing programs have been implemented. Almost none of the voluminous benefit-cost analyses that economists have undertaken of such programs has found any whose benefits exceed their costs.

I am shocked that the Commercial Club advocates expanding government housing and land use control programs, which have done so much harm for so many decades. They should have asked how we can get governments out of housing, not how we can get them in more deeply. The U.S. has the world's most efficient housing development, construction, and finance systems. All that is needed is to let markets work.

The easiest remedy would be a one-sentence state law: "Thou shalt impose no restrictions on housing except those needed to protect the health and safety of its residents." Housing would then be built at greater densities in suburbs, especially near suburban employment centers, highway interchanges, and public transit stops. Suburban expansion would be slowed at least somewhat. And developers would be permitted to build dwellings, such as manufactured housing, affordable to low-income residents.

Of course, my proposed one-sentence state law is much too radical to be adopted, and I would not expect the Commercial Club to advocate it. But readers have been sold short by the Commercial Club's naive advocacy of more government regulations to undo the effects of excessive government intervention.

THE REGIONAL COORDINATING COMMITTEE: MORE WASTE AND BUREAUCRACY

The Chicago metropolitan area has so many local government units that all but a few elected officials are effectively autonomous. The report does no more than mention the problem and propose to establish a task force to study it. The report's real concern is "coordinating" local government activities, which it proposes be done by a new government agency, to be named the Regional Coordinating Council (RCC).

Since funding for the RCC is to be from region-wide taxes, local government entities would bid furiously for RCC assistance. All government units can persuasively justify investments that will be mostly paid for by someone else. As evidence, one need only note the pork barrel projects Congress and state legislatures authorize: projects that bring only local benefits but are wildly popular with local representatives.

The proposed RCC would introduce another layer of bureaucracy and rules between developers and their efforts to build houses for people. Housing costs would rise, worsening the tendency to blame developers for not building enough "affordable" housing and increasing demands for yet more regulations.

CHASING JOBS, DISTORTING ECONOMIC DEVELOPMENT

High-technology research, development, and manufacturing are the most footloose of industrial sectors. Deliberate attempts to attract high-tech employment to the region, such as those endorsed by the Commercial Club, will just waste taxpayers' money. The same is true of public-private cooperative venture capital partnerships. Venture capital is the riskiest of industrial investments and should be left to the private sector.

Chicago Metropolis 2020 rails against suburbs that limit residential densities excessively—yet it does not mention excessive land use controls applied to businesses. In fact, there was no need to exempt the City of Chicago from the charge of excessive limitations on either residential or business development. Some suburbs try to attract businesses, as the report indicates, but others, predominantly distant and high-income suburbs, limit commercial as well as residential development.

Chicago Metropolis 2020 also endorses Tax Increment Financing (TIF). TIF districts certainly result in decreased unemployment in the jurisdiction, and politicians love them because apparent benefits are quickly realized. But the costs are borne by taxpayers in the future, when the entrepreneurial elected official expects to have left office. Every dollar spent from TIF bonds must be paid for by taxes levied on local people, and those tax collections have the same direct and indirect effect as TIF expenditures, but with the signs reversed. TIF should not be considered a valid tool for economic development.

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We Can Feed the World

by Jay Lehr, Ph.D.

Over 160 million children today suffer the stunted growth, weakened condition, and chronic illnesses that afflict the world's malnourished populations. A report recently issued by the International Food Policy Research Institute (IFPRI) offers a very gloomy outlook for ending their suffering.

While dramatic declines in the number of malnourished children under the age of five occurred between 1960 and 1990, the rate of decline has slowed markedly. IFPRI projects that number is likely to fall by only 20 percent in the next 20 years, to about 130 million.

This is unconscionable in a world whose increasing productivity has caused the food supply in every developed country to be in such huge surplus as to make fair economic returns for most farmers a major challenge.

A bigger problem than money . . . are the roadblocks thrown up by shortsighted nations who refuse to allow the spread of advanced agricultural technology or free trade in food.

LITTLE HOPE FOR THE FUTURE?

Every year, malnutrition plays a role in more than half of the nearly 12 million deaths of children under five in developing countries. Due to poor diet and disease, fully one-third of the children in those countries suffer from stunting—below-normal height for their age. Undernourished children are more susceptible to severe illnesses, have difficulty learning in school, do not reach their full height, and have trouble with coordination and mobility. These problems plague them in adulthood.

Unless something drastic is done, there is little hope for the future. But drastic is a subjective word, and when defined in terms of world health it is not a big mountain to climb.

IFPRI concludes that an additional expenditure of only $10 billion worldwide would more than double the projected decline in malnutrition, from 20 percent to 42 percent. That sum represents less than one week of global military spending prior to September 11 . . . and it's now a whole lot less.

TECHNOLOGY, TRADE ARE KEY

A bigger problem than money, however, are the roadblocks thrown up by shortsighted nations who refuse to allow the spread of advanced agricultural technology or free trade in food.

Most governments have been unwilling to turn food production over to the forces of the free market. They intervene in agriculture in countless ways to promote domestic food production, keep domestic food prices low, or reduce dependence on foreign suppliers.

Far and away the largest obstacle to feeding the world's children a healthy diet has been the resistance to bio-engineered foods. Biotechnology is a science far advanced beyond the initial work of Gregor Mendel, who first crossed common, garden-variety peas to create more useful hybrid plants.

Today, with the surgical precision we have learned from our studies of genetics, we are able to create a variety of positive new traits in plants ... with no harmful side effects. Study after study of biotech products has turned up not a single negative outcome in the face of overwhelmingly wonderful advances in human nutrition.

IMPROVING ON THE STAPLES

In the Third World, nearly 40 percent of all grains are contaminated in storage by microtoxin residues left behind by such pests as the European corn borer. Those microtoxins are responsible for 25 percent of the premature deaths of adults in the Third World. Those deaths can be eliminated with bio-engineered Bt corn and related grains that carry a natural toxin, *Bacillus thuringensis*, which kills the corn borer soon after it bites into the corn.

Rice, the major food staple throughout the developing world, has been nutritionally enhanced through bio-engineering for increased iron and beta-carotene, which can dramatically decrease childhood blindness and iron deficiency in the Third World.

Bananas can now be grown with a hepatitis C vaccine built right in, reducing from $150 to *two cents* the cost of protecting a person in the Third World from this dreaded disease.

The real answer to solving the world's malnutrition is to stop allowing shortsighted bureaucrats and fearmongers to prevent the scientific advances made in industrialized countries from spreading throughout the world.

Steps toward a future of global food security will have enormous payoffs worldwide, offering all people a higher quality of life and greater economic potential. If decision-makers fail to reform key policies or make adequate investments, the costs of human misery and wasted potential will be enormous.

We can feed the world . . . if only it will let us.

Dr. Jay Lehr is president of Environmental Education Enterprises and science director for The Heartland Institute.

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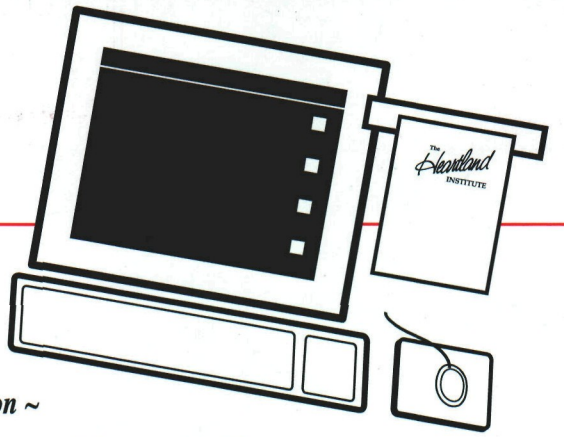

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